Reaves Asset Management

Market Commentary
Third Quarter 2022

REVIEW AND OUTLOOK

Macroeconomic headwinds from persistently high inflation coupled with another quarter of rising interest rates resulted in a challenging quarter for equities. The Reaves Long Term Value Strategy declined by 8.14% before fees, modestly outpacing the MSCI USA Infrastructure Index, but lagging the broad market S&P 500 Index. Over the past five years, the strategy generated an annualized return, before fees, of 4.89%.

Despite a bout of profit taking in September, utility stocks have been strong relative performers this year and, as discussed below, will likely benefit from favorable federal legislation enacted in August. Another positive note is the dividend growth of stocks owned in the strategy: the weighted average growth rate of cash distributions from portfolio companies was about 7.6% over the past 12 months.

Performance as of 9/30/22	Q3 2022	1 Year	5-Year Annualized
LTV Wrap Composite, gross of fees[1]	-8.14%	-11.60%	4.89%
LTV Wrap Composite, net of fees[1]	-8.74%	-13.81%	2.30%
MSCI USA Infrastructure Index[2]	-8.86%	-2.87%	4.57%
S&P 500 Index[3]	-4.88%	-15.47%	9.24%

In the last week of the quarter, utility company executives attended several industry conferences to discuss the impacts from the recently passed Inflation Reduction Act ("IRA") and the outlook for future growth. In our view, executives sounded as optimistic as ever. Tax credits included in the IRA are likely to cause massive investment into renewable power and associated infrastructure; other provisions in the Act may make it economic for regulated utilities to own most of the new renewable power. Electric vehicle tax credits are likely to lead to growing electricity demand for the first time in nearly two decades. Nuclear tax credits mean all currently running plants should continue to operate – and be reliably profitable for the first time in several years. Importantly, the tax credits are in effect until the United States reaches 75% reduction in greenhouse gas emissions, an effort that is likely to take nearly 20 or more years to happen.

The IRA seems to be the most impactful legislation affecting the utility sector in several decades. Yet, utilities fell by more than 10% in the last two weeks of September as the executives were on the road explaining the many benefits. Rather than focusing on the impacts of the bill, the market sold off after a higher-than-expected CPI report on September 13th, and utilities were affected disproportionately as investors considered the possibility of higher interest rates for longer than expected.

There are some negatives for utilities. High power and natural gas prices can crowd out spending on renewable energy infrastructure. Continued supply chain problems affecting renewable power equipment may mean that meaningful acceleration in growth may not happen until 2024 or 2025. The net impact though is positive for the sector, and the market sell-off should provide us with many opportunities.

Investments in stocks in other sectors should also benefit from improving fundamentals. This is best illustrated by looking at changes in consensus estimates. Since the start of 2022, consensus 2023 earnings per share estimates have increased for T-Mobile (+14%) and Telus (+4%) and 2023 funds from operations per share estimates have risen for Prologis (+10%), SBA Communications (+6%), and Crown Castle (+6%). While there's not a specific catalyst as there is for utility companies with the IRA, we feel confident in the business conditions and fundamentals for most investments in the portfolio, and we will be well positioned when the sell-off ends.

PORTFOLIO REVIEW

Top 5 Contributors in Q3	*Symbol*	*Contribution (basis points)*
Constellation Energy	CEG	+140 bps
Old Dominion Freight Line	ODFL	+73 bps
Exelon Corp	EXC	+ 11 bps
NextEra Energy	NEE	+ 9 bps
T-Mobile US	TMUS	- 1 bps

CEG: Constellation Energy was the best performing name during the quarter, rising +45% as passage of the Inflation Reduction Act structurally changed the financial and overall risk profile of the existing nuclear fleet in the United States. The legislation effectively makes nuclear power a contracted clean energy asset, which we believe justifies a higher valuation. The newly passed production tax credit for existing nuclear plants is an inherent recognition of the critical role that nuclear plants play in providing zero emission baseload power. The credit allows nuclear operators to sell power at a floor price in the low $40's per megawatt hour while retaining asymmetric upside to potentially higher power prices.

ODFL: Old Dominion recovered in the early part of the quarter in response to strong earnings. Following negative commentary from large retailers, investors became worried that inflation would lead to reduced consumption and less demand for transportation services. The unique dynamics of the Less-than-Truckload (LTL) business, which is more sensitive to industrial activity than retail with low competition, helped earnings to remain elevated. We sold the stock after its recovery to redeploy the funds in more attractive opportunities.

EXC: We sold out of our position in Exelon in mid-August which helped to make it a top performer during the quarter. After spinning out Constellation Energy earlier this year, the company re-focused operations on regulated utility activities which lowered its overall risk profile. While passage of the IRA is a major positive for the utility sector, the corporate minimum tax is a headwind for Exelon as it is unlikely to generate enough tax credits to offset the corporate minimum tax. Exelon announced an equity issuance to offset the negative cash flow impact and shore up the balance sheet, but we felt that investment dollars would be best served focused on companies with opportunities to benefit from the IRA.

NEE: NextEra Energy is the largest developer of renewable generation in the United States which makes the company a principal beneficiary of the IRA. With most utilities likely to be focused on renewable development, NextEra's experience, skill, and size should help the company on a relative basis in what is likely to be a very competitive environment.

TMUS: Business momentum at T-Mobile is robust. Management continues to outpace expectations on integrating Sprint and deploying its wireless network assets, and the company recently achieved its first investment-grade rating. With incremental financial capacity, management acquired wireless and began an outsized share repurchase program ahead of original plans. We continue to be excited about the long-term prospects for the business.

Top 5 Detractors in Q3	*Symbol*	*Contribution (basis points)*
Charter Communications	CHTR	-118 bps
Rogers Communications	RCI	-73 bps
Public Service Ent Group	PEG	-64 bps
CMS Energy	CMS	-61 bps
Equinix	EQIX	-56 bps

CHTR: While cable operators broadly continue to generate solid financial results, investors continued to be concerned about future competitive dynamics. For Charter, the situation was made worse by its financial leverage and uncertainly created by the retirement of its iconic CEO. We believe investors have become overly pessimistic about cable's future and do not expect much, if any, changes associated with new management at Charter. Nonetheless, we have materially reduced our cable exposure over the last year due to the perceived competitive risks. We have stuck with Charter over other cable companies because of its share repurchase program – were it to maintain the existing pace of share repurchases at today's market cap, all the shares of the Company could be retired within four to five years.

RCI: Investors have grown increasingly skeptical that Rogers will be able to close its deal to acquire Shaw Communications. The public comments from the Company and regulators have seemed to increase the odds for a protracted legal challenge. Making matters worse, Rogers had a lengthy network outage during the quarter that was damaging to its reputation. We think a lot of negative sentiment is now discounted in shares of Rogers given the solid business momentum of the last few quarters. We also believe the Shaw deal, if they can complete it, offers material financial and industrial logic. We are therefore cautiously optimistic that the risk/reward skews favorably from here.

PEG: We believe Public Service Enterprise Group will be one of the main beneficiaries of the Inflation Reduction Act because of its interests in nuclear power and renewable development. However, the stock fell on concerns about its pension plan. Pension expenses are non-cash but declines in the stock and bond markets could lead to higher expenses and lower than expected earnings. Cash generation remains the same, but the market has been concerned about the potential impact to earnings.

CMS: CMS Energy declined as investors focused on the impact of higher interest rates on its parent debt. The fundamentals of the company remain strong, but the higher level of non-utility debt gave investors a reason to sell the stock as interest rates rose during the quarter.

EQIX: Equinix' year-to-date underperformance relative to the broader market lies in sharp contrast to its strong results and healthy ongoing product demand. Several macro factors outside of Company control are the primary culprits for the stock's weakness. Data centers require a lot of energy to operate, so higher power prices, especially in emerging and western European markets, have created unease. While energy costs are a pass-thru to tenants, higher costs may crowd out spending on data centers. Also, given the global presence, currency exposure adds exogenous risk.

Thank you for your continued support of our investment management services. Please let us know if you have any questions about the market developments and stocks discussed in this commentary. We look forward to hearing from you.

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[1]Reaves' Long Term Value Strategy (Reaves LTV) seeks a high risk-adjusted total return. The strategy tends to be invested in relatively larger companies with strong balance sheets, good cash flow and a history of dividend growth. Core positions are accumulated in financially strong, high-quality companies and generally have the following characteristics: strong management, above industry-average growth rates, large/mid-market capitalization and low price-earnings multiples.

Beginning December 2019 Reaves Long Term Value Strategy (LTV) is represented by the LTV SMA Wrap Composite. This composite contains those LTV discretionary portfolios with wrap (bundled) fees. Wrap accounts are charged a bundled fee which includes the wrap sponsor fee, as well as Reaves' investment advisory fee. Due to compliance requirements, the net-of-fees calculation is computed based on the highest annual fee assigned by any wrap sponsor who utilizes this portfolio in an investment wrap program (300 basis points from 1/1/03 through 12/31/16 and, effective 1/1/2017, 250 basis points). LTV SMA Wrap Composite performance consists of money-weighted, time-weighted returns and it includes the reinvestment of all dividends and other earnings. The inception date of the composite is December 2002; however, the composite was created in January 2013. This composite has been managed in a similar manner to the Reaves LTV ERISA Composite which ended in December of 2019. The LTV SMA Wrap Composite does not represent all of Reaves' assets under management.

[2]The MSCI USA Infrastructure Index captures the opportunity set of U.S. companies that are owners or operators of infrastructure assets. Constituents are selected from the equity universe of the MSCI USA Index, the parent index, which covers large and mid-cap securities in the U.S. All index constituents are categorized in one of thirteen sub-industries, which MSCI aggregates and groups into five infrastructure sectors: Telecommunications, Utilities, Energy, Transportation and Social. Reaves' portfolios may at times be more diversified by including companies classified as operating in the Real Estate and Industrials sectors.

The MSCI USA Infrastructure Index was launched on Jan 22, 2008. Data prior to the launch date is back-tested data (i.e., calculations of how the index might have performed over that time period had the index existed). There are frequently material differences between back-tested performance and actual results. Past performance -- whether actual or back-tested -- is no indication or guarantee of future performance.

During the third quarter of 2021, we began using the MSCI USA Infrastructure Index as the new benchmark for the Reaves LTV Strategy. We believe the MSCI USA Infrastructure Index, with its large weightings in companies that operate in the Utilities and Communications Services sectors, will provide a better way to measure the relative performance of the Reaves LTV Strategy.

[3]The S&P 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The typical Reaves portfolio includes a significant percentage of assets that are also found in the S&P 500 Index. However, Reaves' portfolios are far less diversified, resulting in higher sector concentrations than found in the broad-based S&P 500 Index.

Weighted average is a calculation that takes into account the varying degrees of importance of the numbers in a data set. In calculating a weighted average, each number in the data set is multiplied by a predetermined weight before the final calculation is made.

The Consumer Price Index (CPI) is a measure of the average change over time in the prices paid by urban consumers for a market basket of consumer goods and services.

An annualized total return is the geometric average amount of money earned by an investment each year over a given time period. The annualized return formula is calculated as a geometric average to show what an investor would earn over a period of time if the annual return was compounded.

Reaves' portfolio characteristics, holdings and sector weightings are subject to change at any time and, unless otherwise noted, are based on our Long Term Value Strategy. Holdings, sector weightings and portfolio characteristics of individual client portfolios may differ, sometimes significantly, from those shown. Portfolio holdings are rounded to the nearest whole percent, and returns are rounded to the nearest tenth of a percent. This information does not constitute, and should not be construed as, investment advice or recommendations with respect to the securities and sectors listed. The securities mentioned in this commentary does not represent all the securities held in the Reaves LTV SMA Wrap Strategy. Reaves' LTV SMA Strategy does not represent all of Reaves' assets under management.

This document is a supplement to the Fact Sheet for the Reaves LTV Strategy Third Quarter 2022.

***Past results do not guarantee future performance.** Further, the investment return and principal value of an investment will fluctuate; thus, investor's equity, when liquidated, may be worth more or less than the original cost. This document provides only impersonal advice and/or statistical data and is not intended to meet objectives or suitability requirements of any specific individual or account.*

All investments involve risk, including loss of principal.

All data is presented in U.S. dollars.

Cash is cash and cash equivalents.

An investor cannot invest directly in an index.

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***Fees:** Net performance reflects the deduction of advisory fees which are described in detail in our Form ADV Part 2A.*

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Additional information about Reaves may be found on our website: www.reavesam.com.

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